Econ 2 Midterm 2

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Name: ____________________

Student ID: ____________________

TA Name and Section: ____________________

Exam Rules

1. The exam starts at 3:30 and ends at 4:45.
2. There are 35 multiple choice questions
3. Make sure to fill in the scantron including your name and ID. You will not be given extra time at the end.
4. Calculators (including graphing calculators) are allowed.
5. Please put all materials other than your calculator and a pen or pencil in your bag. If you have a phone or other item out for any reason you will be given a 0 on the exam.
6. If you have a question or need to go to the bathroom raise your hand and a TA will help you

1. Which of the following best describes the problem of the "double coincidence of wants" in a barter economy
   (a) Sellers need to produce what consumers want instead of what they enjoy producing
   (b) Some goods are not available in the market because no producer is currently selling them
   (c) In order to trade, two people each need to produce something that the other actually wants
   (d) Prices do not accurately reflect the value of goods
2. A store only accepts payment in Bitcoin, but lists all of its prices only in dollars. In this store
   (a) Dollars are the medium of exchange and Bitcoin is the unit of account
   (b) Dollars are the unit of account and Bitcoin is the medium of exchange
   (c) Dollars are both a medium of exchange and a store of value, but Bitcoin is only a medium of exchange
   (d) Bitcoin and dollars are both a medium of exchange and a unit of account
3. Of the following assets, which IS included in M1, but NOT included in M0
   (a) Pennies
   (b) Treasury bonds
   (c) Credit cards
   (d) Checking deposits
4. If the monetary base is 5,000 and the total money supply is 20,000, what is the percentage of deposits held as reserves (assuming no currency is held)?
   (a) 5%
   (b) 20%
   (c) 25%
   (d) 50%
5. The Fed buys $20,000 of government bonds. If the required reserve ratio is 20%, which of the following could NOT be a possible result of the policy
   (a) The money supply increases by $20,000
   (b) The money supply increases by $50,000
   (c) The money supply increases by $100,000
   (d) The money supply increases by $150,000

6. A bank holds \$100 million in deposits and gives out \$80 million of loans. If its excess reserves are \$10 million, what is the required reserve ratio?
   (a) 10%
   (b) 20%
   (c) 50%
   (d) 80%

7. The US Federal Reserve tries to keep the inflation rate around
   (a) -2% (deflation)
   (b) 0%
   (c) 2%
   (d) 10%

8. Which of the following would DECREASE the money supply?
   (a) The Fed buys bonds from the market
   (b) The Fed decreases the discount rate
   (c) The Fed reduces reserve requirements
   (d) Banks hold a larger percentage of deposits as excess reserves

9. Which of the following did NOT happen during the Great Recession?
   (a) Inflation increased dramatically
   (b) The Fed rapidly increased the monetary base
   (c) Banks held a much larger percentage of deposits as excess reserves
   (d) The money multiplier fell

10. Assuming everything else stays constant, velocity of money falls when
    (a) The money supply increases
    (b) The money supply decreases
    (c) The price level increases
    (d) Real GDP increases

11. The money supply changes. If the classical dichotomy is true, which variable would we not expect to change?
    (a) The price level
    (b) The unemployment rate
    (c) Nominal GDP
    (d) Nominal interest rates

12. In 2017, the money supply is 1000, velocity is 10, and real GDP is 10,000. In 2018, the money supply is 3000, velocity remains at 10, and real GDP increases to 25,000. What is the inflation rate from 2017 to 2018?

    (a) 20%
    (b) 30%
    (c) 150%
    (d) 300%

13. Assume the quantity theory of money is true, real GDP growth is 0%, the money supply grows at 2% per year, and the real interest rate is 4%. What is the nominal interest rate?

    (a) 2%
    (b) 4%
    (c) 6%
    (d) 8%

14. If the Fed announces it will increase its inflation target next year, which statement is most likely correct about the effects of the increase in inflation

    (a) The average individual's wage cannot buy as much as before
    (b) Savers are worse off and borrowers are better off
    (c) The real interest rate will increase
    (d) The cost of holding dollars has increased

15. Imagine two economies. In Economy A, the nominal interest rate is 8%, the inflation rate is 2%. In Economy B, the nominal interest rate is 4% and the inflation rate is 0%. In each economy, nominal returns are taxed at a 50% rate. If an investor only cares about their after tax real return, which economy would they prefer to live in?

    (a) Economy A
    (b) Economy B
    (c) Indifferent
    (d) We don't have enough information

16. If actual inflation is greater than expected inflation when a loan contract is written

    (a) Both borrowers and lenders are unhappy
    (b) Borrowers are happy and lenders are unhappy
    (c) Borrowers are unhappy and lenders are happy
    (d) Bother borrowers and lenders are happy

17. Which of the following costs of inflation would not be a problem with deflation

    (a) An increase in the cost of holding money
    (b) Costs of changing prices frequently
    (c) Changes in relative prices that cause misallocation
    (d) Arbitrary redistributions of wealth when deflation is different than expected

18. Paul Volcker was able to end the Great Inflation by

    (a) Reducing money supply growth and reducing interest rates
    (b) Reducing money supply growth and increasing interest rates
    (c) Increasing money supply growth and reducing interest rates
    (d) Increasing money supply growth and increasing interest rates

19. Compared to the pre-WWII period, which is true of tariffs today?

    (a) Tariffs in the US are lower, but in the rest of the world are higher
    (b) Tariffs in the US are higher, but in the rest of the world are lower
    (c) Tariffs are lower in both the US and the rest of the world
    (d) Tariffs are higher in both the US and the rest of the world

20. A country has a trade deficit of $100 billion. It increases its imports by $25 billion and its exports by $15 billion. It's net exports after these changes is

    (a) -$60 billion
    (b) -$90 billion
    (c) -$110 billion
    (d) -$140 billion

21. If saving is greater than domestic investment

    (a) Net Capital Outflow is negative
    (b) Net Exports is negative
    (c) Both A and B
    (d) None of the above

22. A person in Germany exchanges Euros for dollars and then uses the dollars to buy a computer from the US. In the Balance of Payments, which is true?

    (a) Germany's current account increases and the US current account decreases

    (b) Germany's current account decreases and the US capital account increases

    (c) Germany's capital account decreases and the US current account increases

    (d) Germany's capital account increases and the US current account increases

23. The cost of a typical basket of goods in Europe is 50 Euros. The cost of the same basket in the US is \$75. The nominal exchange rate between the US and Europe is 0.8 Euros per dollar. What is the real exchange rate?

    (a) 0.53

    (b) 0.67

    (c) 1.2

    (d) 1.5

24. A Japanese investor exchanges Yen for dollars and buys a US bond. This exchange

    (a) Increases Japan's net capital outflow by the value of the bond

    (b) Increases Japan's net capital outflow by less than the value of the bond

    (c) Decreases Japan's net capital outflow

    (d) Does not change Japan's net capital outflow

25. If GDP equals \$10 trillion, government expenditure is \$2 trillion, domestic investment is \$3 trillion, and Net Capital Outflow is -\$1 trillion, what is consumption?

    (a) \$ 4 trillion

    (b) \$ 5 trillion

    (c) \$6 trillion

    (d) \$7 trillion

26. The foreign price level and domestic price level both double. If purchasing power parity holds, the nominal exchange rate will

    (a) Double

    (b) Halve

    (c) Stay the same

    (d) None of the above

For questions 27-31, use the following information

$$Y = 100,000$$
$$C = 70,000 - 100r$$
$$G = 10,000$$
$$I = 20,000 - 200r$$
$$NCO = 10,000 - 200r$$
$$NX = 8,000 - 100e$$

27. Which of the following represents the supply of loanable funds in this economy?
    (a) S = 70,000 - 100r
    (b) S = 20,000 + 100r
    (c) S = 30,000 + 100r
    (d) S = 70,000 + 100r

28. What is the equilibrium real interest rate and quantity of NCO?
    (a) r = 10, NCO = 8,000
    (b) r = 10, NCO = 6,000
    (c) r = 20, NCO = 8,000
    (d) r = 20, NCO = 6,000

29. What is the equilibrium exchange rate?
    (a) 5
    (b) 10
    (c) 12
    (d) 20

30. Of the following policies, which would NOT change the country's trade balance (i.e. the quantity of NX in equilibrium)
    (a) Putting a restriction on imports so that $NX = 10,000 - 100e$
    (b) Reducing regulations on investors so that $I = 22,000 - 200r$
    (c) Increasing government spending to $G = 15,000$
    (d) Offering incentives for foreigners to invest so that $NCO = 8,000 - 200r$

31. Of the policies in the previous question, which would INCREASE Net Exports
    (a) (a) only
    (b) (b) only
    (c) (c), and (d)
    (d) None of them would increase NX

32. If purchasing power parity holds, the demand curve for foreign currency (NX) in the currency exchange market is

    (a) Downward sloping
    (b) Upward sloping
    (c) Horizontal
    (d) Vertical

33. US exports are especially popular this year which causes a shift right in demand for dollars. Which of the following is a possible outcome of the change?

    (a) US exports fall and US imports rise
    (b) US exports rise and US imports fall
    (c) US exports rise and US imports rise
    (d) US exports rise and no change in US imports

34. The exchange rate between the Chinese Yuan and the US dollar is 7 Yuan per dollar. If the exchange rate changed to 10 Yuan per dollar

    (a) There would be no change in NCO
    (b) US investors would increase investment in China, increasing NCO
    (c) US investors would decrease investment in China, decreasing NCO
    (d) Chinese investors would increase investment in the US, decreasing NCO

35. An economic boom in the US attracts a larger inflow of capital. This will most likely cause

    (a) An increase in both the interest rate and the exchange rate
    (b) An increase in the interest rate and a decrease in the exchange rate
    (c) A decrease in the interest rate and an increase in the exchange rate
    (d) A decrease in both the interest rate and the exchange rate